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How Military Base Realignment and Closures Will Affect Communities and Housing Demand

By Brandi Day, Real Estate Analyst

When recommendations for the 2005 Base Realignment and Closures (BRAC) were released in May, no state was unaffected. The proposal calls for an increase of 3,389 military personnel in the United States and a loss of 18,891 civilian military jobs, while overseas operations will lose 14,171 military positions but gain 668 civilian workers. Bases affected by the BRAC round will either close, be realigned or receive personnel. A realigned base will remain open, but with fewer personnel, both military and civilian, and reduced missions.

While final decisions on the BRAC proposal will not be made until September, it is important to begin considering the impact of these proposals now. In many small towns across the country, the military base is one of the top employers. Major changes and sometimes even minor employment shifts can have a drastic impact on the local economy and housing market. When conducting a market study to determine future demand for housing in an affected area, both market-rate and affordable, a thorough analysis of the base changes must be conducted.

Base Closing

The first indicator of a market's future is how local officials are handling the announcement. Is there a task force in place to begin preparing for the closure? Or are local officials placing all their efforts on stopping the closure?

If a base is closing, the planning process must already be under way in order to mitigate the economic impact of this loss. Planning delays will ultimately lead to delays in the area's economic recovery. There is no doubt that the areas losing a base will suffer an economic slump as the local economy adjusts. The question is: how significant will the downturn be? With proper preparation, the negative affects can be short-term.

Of course, even with proper planning, the process to redevelop a closed base will be slow, delayed by the negotiating and planning process, as well as by environmental clean-up. When determining the future health of a market, the analyst should make note of the use of the base and, if possible, the projected length of time for environmental clean-up. This information, if it is available, will come from the local organization working to redevelop the base.

Employment loss in the area where a base closes will not be limited to the actual military and civilian personnel at the base. As support services feel the economic impact of a loss of potential customers, unemployment will escalate. This has the potential to drive up demand for affordable housing in these local markets; however, it is more likely to be very low-income housing where demand increases. Moderate-income affordable housing, such as that developed with low-income housing tax credits (LIHTC), is more likely to feel the pinch as market-rate properties decrease rents or offer concessions that make them more competitive with the LIHTC rents.

However, the direct factors with the most relevance in the housing market are the number of military personnel living off base and the mix of military and civilian personnel at a base. Civilian personnel are more likely to remain in the area after a base closes. Because they generally belong to the community rather than the base, civilian personnel are more likely to be homeowners rather than temporary renters and will, therefore, have less of an impact on the renter market. However, if a large portion of homeowners leaves the area, home prices could drop, making it more affordable for renters to purchase homes. In that scenario, apartment communities could begin to lose tenants to homeownership.

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The portion of military personnel living off base will have the most direct impact on a market. If most personnel live on base, the impact will be less than if most live in the community and will be leaving a flood of vacant housing units behind.

Base Realignment

A base realignment will cause many of the same problems as a base closure. The economy will be affected by job loss, both direct and indirect as the support services feel the economic pinch. There is great potential that the housing market could be flooded with vacancies.

The good news is that, in most cases, the losses to realignment will be small and easier for local government and economic development officials to mitigate. However, the major problem with realignment is that bases may have little or no land to redevelop and stimulate economic growth. Therefore, the city will need to make other plans to offset the job losses. If there are no other potential employers coming to the area and/or if the employment market is small, the impact will be greater and last longer.

A secondary problem is that the transition process may last longer in a realignment. The troops may be delayed in moving as the receiving base prepares for more personnel. The realigned base may need more time to determine which of its lands and facilities are no longer needed and can be reused. Then a plan will have to be worked out between the base and the community to allow access to these lands, which could be located within the boundaries of the operating base.

In this scenario, it is more difficult to determine the impact of the realignment on the community because key pieces of information are still unknown and cannot be assumed. Therefore, when preparing an analysis of the housing market, it is best to use caution and rely more on current condition in the economy and housing market as indicators. If the housing market is performing well with little vacancies, a small decrease in population and employment could provide breathing room. However, if the market is already experiencing high vacancies and concessions, this could ruin the market for additional development over the following years.

Receiving Base

Although communities gaining personnel at their local military installations are considered the lucky ones in this BRAC round, they still will need to make plans in preparation for the influx of military personnel and their families. If the area does not have the housing and infra-

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structure in place to accommodate the increased demand, the area's new residents may be forced to move to outlying areas.

The increased demand in the housing market may increase costs, in return driving up the need for affordable housing. This will be more significant in a market that is already tight. In general, military personnel do not meet the income qualifications for LIHTC housing because of their housing allowance. However, their impact on the market-rate apartments may drive up costs and push some market-rate renters into LIHTC housing.

Conclusion

No matter what category a base falls under, closing, realigning or receiving, the community will need to prepare for the impact. To determine demand for future or existing housing, the trickle-down effects of employment loss or gain, as well as the indirect impacts on the affordable housing market as prices fluctuate due to changes in demand, must be considered. The 2005 BRAC round can either bring new life to a community or be the final nail in the coffin. ❖

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